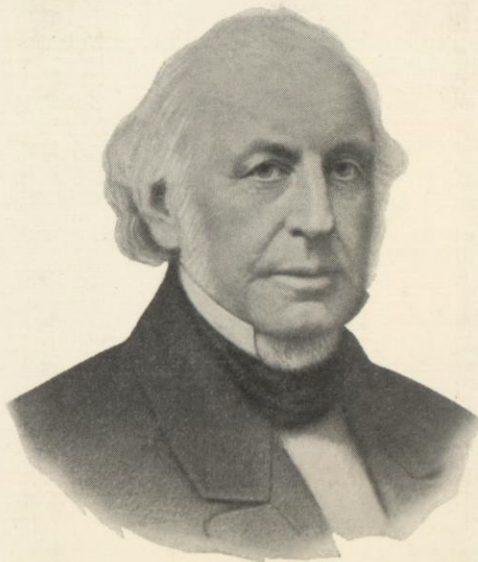


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MATTHIAS W. BALDWIN, FOUNDER

ANNUAL REPORT
1937

THE
BALDWIN LOCOMOTIVE WORKS
CONSOLIDATED

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TWENTY-SEVENTH ANNUAL REPORT

THE
BALDWIN LOCOMOTIVE WORKS
PHILADELPHIA, PA.



CONSOLIDATED WITH

STANDARD STEEL WORKS COMPANY
CRAMP BRASS AND IRON FOUNDRIES COMPANY
BALDWIN-SOUTHWARK CORPORATION
DE LA VERGNE ENGINE COMPANY
THE PELTON WATER WHEEL COMPANY
THE WHITCOMB LOCOMOTIVE COMPANY
THE MIDVALE COMPANY
and
SUBSIDIARIES

December 31, 1937

THE BALDWIN LOCOMOTIVE WORKS

Incorporated under the Laws of the State of Pennsylvania

DIRECTORS

SAMUEL M. VAUCLAIN
SYDNEY E. HUTCHINSON
ARTHUR W. SEWALL
FRANCIS M. WELD
JOSEPH N. EWING
GEORGE H. HOUSTON
EDWARD F. FISHER
JOHN P. SYKES
W. HINCKLE SMITH
LIVINGSTON E. JONES
CONRAD N. LAUER
ROBERT C. SHIELDS

Rosemont, Pa.
Philadelphia
Philadelphia
New York City
Philadelphia
Philadelphia
Detroit
Philadelphia
Philadelphia
Philadelphia
Philadelphia
Detroit

OFFICERS

SAMUEL M. VAUCLAIN
GEORGE H. HOUSTON
JOHN P. SYKES
ROBERT S. BINKERD
HARRY GLAENZER
CHARLES E. ACKER
CHARLES D. MACGILLIVRAY
CARLOS F. NOYES

Chairman of the Board
President
Vice-President
Vice-President and Director of Sales
Vice-President in Charge of Engineering
Treasurer
Secretary
Comptroller

GENERAL COUNSEL

MORGAN, LEWIS & BOCKIUS
Philadelphia

PLANT AT BALDWIN

EDDYSTONE, PENNSYLVANIA

TRANSFER AGENTS

Common Stock, \$13 Par Value
Voting Trust Certificates Representing Same

IN PHILADELPHIA:

Fidelity-Philadelphia Trust Company
135 South Broad Street

IN NEW YORK:

Bankers Trust Company, 16 Wall Street

Preferred Stock, 7% Cumulative, \$30 Par Value
Warrants for the Purchase of \$13 Par Value Common Stock

IN PHILADELPHIA:

Drexel & Co., 15th and Walnut Streets

IN NEW YORK:

J. P. Morgan & Co., 23 Wall Street

REGISTRARS

Preferred Stock, 7% Cumulative, \$30 Par Value
Common Stock, \$13 Par Value
Voting Trust Certificates Representing Same

IN PHILADELPHIA:

The Pennsylvania Company for Insurances on Lives and Granting Annuities
15th and Chestnut Streets

IN NEW YORK:

Guaranty Trust Company of New York
140 Broadway

TO THE STOCKHOLDERS:

The following report of the business of your Company, operating as Debtor in Possession in Proceedings for Reorganization in the District Court of the United States for the Eastern District of Pennsylvania, and of its subsidiary companies, all in consolidated form for the fiscal year ended December 31, 1937, is submitted on behalf of the Board of Directors.

OPERATIONS

Operations during 1937 were characterized by increased volume, rapidly mounting costs due to higher wages, rising material prices, and higher taxes. Most of the locomotives delivered during the year were ordered during the latter part of 1936, a considerable volume of locomotive orders being carried over for delivery during 1938.

Consolidated sales for 1937, exclusive of intercompany transactions, totalled \$36,586,461.88, of which sales of locomotive products amounted to \$15,259,799.56. 58% of the total volume of business done was outside of the locomotive field as compared with 82% for the year 1936. Unfilled orders on hand at the end of 1937, without intercompany eliminations, totalled \$24,583,345, as compared with \$30,531,416 at the beginning of the year. Unfilled orders for new locomotives and tenders at December 31, 1937 totalled \$13,512,783.

The year's operations resulted in a profit of \$2,880,690.80 after provision for taxes, but before provision for depreciation and interest. Depreciation reserves accrued during the year amounted to \$1,850,468.25; and interest charges to \$622,845.73, of which bond interest amounted to \$522,054. After provision for depreciation and interest, the net profit from the year's operations amounted to \$407,376.82.

Consolidated sales, sales of locomotive products and the resulting profit or loss before depreciation and interest, together with taxes of all kinds paid or accrued, for the eight years from 1930 through 1937, are shown in the following table.

	Consolidated Sales	Sales of Locomotive Products	Taxes Paid or Accrued	Profit or Loss Before Interest and Depreciation
1930..	\$49,872,455.61	\$31,026,055.09	\$807,764.55	\$5,866,238.70
1931..	20,436,342.75	6,197,035.62	570,035.45	1,155,670.32 ^Ø
1932..	10,596,859.10	3,034,694.01	565,337.32	1,121,957.48 ^Ø
1933..	8,250,319.12	1,037,104.10	550,382.25	870,480.96 ^Ø
1934..	14,554,444.98	3,396,733.10	548,386.23	521,544.69 ^Ø
1935..	19,462,746.53	6,484,928.30	769,908.70	1,064,087.22*
1936..	20,877,735.66	3,737,185.20	1,360,812.98	921,210.55*
1937..	36,586,461.88	15,259,799.56	1,811,092.46	2,880,690.80

* After provision for non-recurring reorganization expenses of \$35,463.38 paid in 1935 and \$198,155.86 paid in 1936.

For purposes of this tabulation, profit or loss and taxes are shown after giving effect in the related year to subsequent adjustments of estimated tax accruals to amounts actually paid or reserved for payment, and to adjustments due to consummating the Plan of Reorganization. Of the taxes accrued for 1937, social security taxes amounted to \$466,468.35, income, excess profits, and undistributed profits taxes to \$726,200, and other taxes to \$618,424.11.

As an indication of their contribution to the industrial activity of the country, it is of interest to note that expenditures of the Company and its subsidiaries during the year, for compensation of personnel amounted to \$16,082,531.66, and for purchases of materials and supplies, exclusive of intercompany transactions, to \$20,967,310.99.

The basis for accrual of depreciation on the property, plant and equipment of The Midvale Company for income tax purposes beginning with the year 1935, was changed during the latter part of 1937 at the request of the Treasury Department, by an extension of the depreciable life of that Company's plant facilities. This change may result in additional assessments for income taxes for 1935 and 1936 and for undistributed profits tax for 1936; also in additional refunds to the Government under the Vinson Act, for 1935 and 1936. The amount of these increased taxes and refunds, if any, has not been finally determined. Provision has been made for their payment, however, by the creation of reserves considered adequate for the purpose, through charges to surplus.

BALANCE SHEET COMMENTS

General Steel Castings Corporation earned its bond interest and a net profit in 1937. The prospects for this company for 1938 are dependent upon the locomotive and the railroad car business obtainable. The per share value of the common stock of this company, as shown on its own books, is substantially less than that at which it is carried on the books of The Baldwin Locomotive Works, which owns 100,800 shares of this common stock.

Collections of current receivables continued during the year in a satisfactory manner. Some further progress was made in the collection of past due receivables previously considered questionable, which has permitted a further reduction of \$120,000 in the reserves provided in prior years for losses anticipated in these items. This reduction was effected by transfers to other reserves.

Inventories were increased during the year by about \$5,636,000, due largely to an increase in the volume of work in process. These inventories were checked throughout by physical count. Raw materials and bulk supplies were priced at the lower of cost or market. Miscellaneous supplies, work in process, and finished product were priced at cost or less, more than 75% being covered by sales orders at prices in excess of inventory values, the remainder being valued conservatively, in the opinion of the Company's

officers, by the provision of reserves for losses anticipated from obsolescence.

Consolidated net current assets were increased from \$8,323,013.08 on January 1, 1937 to \$12,346,822.14 on December 31, 1937. Of this increase, \$2,973,120 was due to cancellation of sinking fund obligations under the First Mortgage and to liquidation of accrued interest on Consolidated Mortgage and Refunding Mortgage Bonds through exchange for new securities pursuant to the Plan of Reorganization. The net current assets of The Midvale Company included in consolidated net current assets were increased from \$5,492,146.37 on January 1, 1937, to \$5,663,362.21 on December 31, 1937. They are subject to reduction, however, by whatever additional assessments may be made for taxes for 1935 and 1936 and by any additional refunds which may be made to the Government for these years under the Vinson Act, all as discussed elsewhere in this letter.

The Midvale Company paid dividends during the year amounting to \$1,198,426.25, of which the Company received \$737,400. Standard Steel Works Company paid a dividend of \$720,000 to the Company, of which \$480,000 was paid in cash and \$240,000 in promissory notes payable on or before January 1, 1943 and bearing interest at 3% per annum. The notes issued by Standard Steel Works Company during 1936 in payment of a dividend to the Company, and held by it subject to the provisions of the First Mortgage, were released to the Company during the year by Court Order in the Reorganization proceedings, and thereafter were paid in cash. The Pelton Water Wheel Company paid a dividend to the Company of \$80,000 in promissory notes payable on or before January 1, 1943 and bearing interest at 3% per annum.

Working capital requirements continued to increase during the year due to the increased volume of business. Orders were obtained from the United States District Court authorizing the Company to borrow up to \$5,000,000 and to use as collateral for such loans, its holdings of the capital stock of The Midvale Company and \$6,000,000 principal amount of General Mortgage Bonds of The Baldwin Locomotive Works. These securities have been pledged for bank loans totalling \$4,500,000 at December 31, 1937.

The remainder of the general reserve created in 1934 for the purpose of effecting adjustments in the book value of certain items of property, plant and equipment and of certain investments, was used for this purpose during the year, with the exception of \$15,258.79 which remains in general reserve. As of December 31, 1937 the general reserve of the parent Company totalled \$875,361.64. Due to shrinkage during the latter part of 1937 in the quoted value of marketable securities owned by The Midvale Company, the reserve carried for this purpose upon the books of that Company was increased, at December 31st, by \$150,000 through transfer from general reserve.

The demolition of the Company's old plant in the vicinity of Broad and Spring Garden Streets, Philadelphia, was carried on

actively during the year and will be finished early in 1938, so far as demolition is contemplated at this time.

REORGANIZATION

The reorganization of the Company under the provisions of Section 77B of the Federal Bankruptcy Act, in proceedings in the District Court of the United States for the Eastern District of Pennsylvania, under way since February, 1935, has progressed toward consummation during the year. Pursuant to the final Order of confirmation entered by the Court on September 1, 1937, the provisions of the Plan of Reorganization with respect to various changes in the First Mortgage and with respect to the exchange of the Company's other securities were carried out. The Plan provided that, for a period of sixty (60) days after final confirmation by the Court, the holders of Consolidated Mortgage Bonds had the option to accept for each \$1,000 bond and accrued interest thereon, eighty (80) shares of new \$13 par value common stock. Consolidated Mortgage Bonds in the principal amount of \$3,964,700 were so exchanged under this option. The remaining Consolidated Mortgage Bonds, in the principal amount of \$6,470,900, have been or are being exchanged for a like principal amount of new Refunding Mortgage Bonds, 6% Convertible Series due 1950, dated September 1, 1935.

The interest due to September 1, 1935 on Consolidated Mortgage Bonds exchanged for Refunding Mortgage Bonds, and the interest due from September 1, 1935 to September 1, 1937 on Refunding Mortgage Bonds issued for this exchange, has been or is being paid by issuance of the Company's new \$30 par value 7% preferred stock. The shares of old preferred and common stocks of the Company have been or are being exchanged for new common stock and warrants in accordance with the provisions of the Plan. Pursuant to these provisions, all shares of new common stock are being issued to Voting Trustees, by whom voting trust certificates are being issued to the holders of old securities for which such new common stock was exchanged. The Voting Trustees now in position to vote the new common stock are Messrs. Charles E. Brinley, Arnold Bernhard, Philip C. Staples, Thomas S. Gates and Robert K. Cassatt.

The balance sheet of December 31, 1937, presented herewith, reflects the capital structure of the Company arranged in accordance with the requirements of the Plan, on the basis of an exchange of all of the Consolidated Mortgage Bonds and of all of the old preferred and common stocks outstanding, for the new securities provided for this purpose under the Plan. Inasmuch as the Refunding Mortgage Bonds were issued as of a date prior to 1937, the Profit and Loss Statement, presented herewith, has been prepared on the basis of interest accrued upon such bonds for the entire year.

The rearrangement of the capital structure provided for by the Plan of Reorganization resulted in a substantial increase in the capital surplus. As of December 31, 1937, the consolidated book

value of the \$13 par value common stock was \$37.57 per share, made up as follows:

Par value of 1,027,762 shares		
issued or held for issuance...	\$13,360,906.00	\$13.00 per share
Surplus.....	<u>25,256,460.70</u>	<u>24.57 per share</u>
Total consolidated book value		
of common stock.....	<u>\$38,617,366.70</u>	<u>\$37.57 per share</u>

The effect of the Plan of Reorganization on the past and future fixed charges of the Company is as follows:

The liability to the First Mortgage Bond Sinking Fund for unpaid bond interest to September 1, 1937, in the amount of \$1,067,500, and for three annual fixed payments aggregating \$600,000, was cancelled.

The liability for unpaid interest in the sum of \$713,646 accrued on Consolidated Mortgage Bonds exchanged for common stock, was extinguished. The liability for unpaid interest accrued on Consolidated Mortgage Bonds exchanged for Refunding Mortgage Bonds, and on such Refunding Mortgage Bonds, to September 1, 1937, in the aggregate amount of \$1,164,762.00, was liquidated through exchange for new 7% cumulative, \$30 par value preferred stock provided under the Plan for this purpose.

The First Mortgage Bonds previously held in the Sinking Fund have been cancelled. This eliminates payment of bond interest to the Sinking Fund. The only remaining interest charge on First Mortgage Bonds is that accruing upon such bonds outstanding in the hands of the public. In 1937 this interest charge amounted to \$133,800. The fixed annual payment to the Sinking Fund under this mortgage, not to exceed \$200,000 per annum, has been made optional with the Company.

The annual interest charge on the Refunding Mortgage Bonds will be less than the annual interest charge on the Consolidated Mortgage Bonds by \$237,882, due to the reduced principal amount of these bonds because of the exchange of certain of the Consolidated Mortgage Bonds for common stock. The interest upon Refunding Mortgage Bonds may be paid in preferred stock, at the Company's option, through September 1, 1940.

The expenses of reorganization from the beginning of the proceedings, including fees of counsel for the Company, and allowances, expenses and fees of counsel for the various protective committees and other parties at interest (to the extent that requests for such allowances, expenses and fees have been presented to the Court) total about \$915,000. Of this amount the Company has paid items totalling \$353,049.24. The remainder awaits

the further consideration and approval of the Court. A reserve has been created for these unpaid items, the amount of which, together with like expenses paid during 1937, has been charged against the capital surplus resulting from reorganization.

PROSPECTS

The outlook for business in 1938 is uncertain. Although a reasonable backlog of orders was carried over into the new year, these were concentrated upon certain products only. There were no large orders for locomotives placed during the latter half of 1937, and orders for other products dropped off sharply during the latter part of the year. Future orders for locomotives will depend largely upon the income of the railroads and the volume of carloadings. The railroads' net operating income has been so reduced in recent months as to leave little leeway for financing the purchase of new equipment. This condition should be greatly improved if the application for increased freight rates, now before the Interstate Commerce Commission, is allowed; but even with improved income arising from such increased rates, the extent to which new orders will be placed will depend, in part, upon recovery in the volume of carloadings. Demand for products other than locomotives is also indeterminate, depending upon a resumption of the modernization and extension of industrial plant facilities. Export demand is more promising than it has been for several years.

CONCLUSION

A number of significant installations of locomotives were made by the Company during the year. An illustration of one of these locomotives, streamlined, built for The Atchison, Topeka & Santa Fe Railway System, is shown on the back cover of this report.

There are submitted herewith:

Consolidated Balance Sheet at December 31, 1937, showing separately the assets and liabilities of The Midvale Company, and of the Company and its subsidiaries other than The Midvale Company.

Consolidated Statements of Profit and Loss, Surplus and General Reserves for the year 1937.

Auditors' Report.

A copy of the annual report of The Midvale Company for the year 1937 is being mailed with this report for further information as to the affairs of that Company.

The loyal, earnest and efficient efforts of the officers and other members of the organization throughout the year are deeply appreciated and gratefully acknowledged.

Respectfully submitted,

GEORGE H. HOUSTON,
President.

February 10, 1938

THE BALDWIN L

(The Baldwin Locomotive Works, Parent Company, is in Proceedings for Reorganization in the
as Debtor

CONSOLIDATED BALANCE

ASSETS	Consolidated Total	Including Subsidiaries other than Midvale	The Midvale Company
Property, Plant and Equipment.....	\$66,352,402.14	\$53,941,960.11	\$12,410,442.03
Less Reserve for Depreciation	25,382,650.52	20,061,408.00	5,321,242.52
	<u>\$40,969,751.62</u>	<u>\$33,880,552.11</u>	<u>\$7,089,199.51</u>
First Mortgage Bond Sinking Fund:			
Cash	\$2,430.24	\$2,430.24	—
First Mortgages on Real Estate owned by Company...	300,000.00	300,000.00	—
	<u>\$302,430.24</u>	<u>\$302,430.24</u>	—
Special Fund held by Trustee of First Mortgage Bonds subject to Order of U. S. District Court.....	\$19,452.71	\$19,452.71	—
Investments:			
General Steel Castings Corporation Common Stock (at cost less reserve, \$3,002,950.00).....	\$2,000,000.00	\$2,000,000.00	—
The Baldwin Locomotive Works Voting Trust Certi- ficates and Warrants, at cost (value at market quota- tion, December 31, 1937, \$60,250.00).....	139,001.75	—	—
The Midvale Company stock at cost less capital dis- tribution.....	—	926,879.38	—
Other Investments (less reserve, \$83,001.00).....	52,004.00	52,004.00	—
	<u>\$2,191,005.75</u>	<u>\$2,978,883.38</u>	—
Notes and Other Credit Instruments and Accounts Re- ceivable not realizable within one year (including past due foreign items, \$1,547,981.83, and less reserve, \$1,693,275.22).....	\$75,617.80	\$70,146.54	\$5,471.26
Current Assets:			
Cash on Deposit and on Hand.....	\$5,078,339.18	\$1,835,438.89	\$3,242,900.29
Sundry Securities (less reserve, \$450,000.00. Value at market quotations, December 31, 1937, \$214,690.71).	144,000.58	45,788.08	237,214.25
Notes and Other Credit Instruments and Accounts Re- ceivable due in 1938 (less reserve, \$231,959.68).....	3,878,594.59	3,066,720.35	853,886.26
Inventories of Raw Materials, Supplies, Work in Pro- cess and Finished Products (less reserve, \$568,035.27). (Raw materials and bulk supplies are priced at the lower of cost or market. Miscellaneous supplies, work in process and finished products are priced at cost or less, a large portion being covered by sales orders at prices in excess of inventory value, the remainder being valued conservatively in the opinion of the management by the provision of reserves considered adequate for losses anticipated from obsolescence)	13,759,505.81	10,900,192.94	2,859,312.87
	<u>\$22,860,440.16</u>	<u>\$15,848,140.26</u>	<u>\$7,193,313.67</u>
Deferred Charges.....	\$127,421.17	\$90,790.02	\$36,631.15
	<u>\$66,546,119.45</u>	<u>\$53,190,395.26</u>	<u>\$14,324,615.59</u>

See balance sheet notes on page 12

LOCOMOTIVE WORKS

District Court of the United States for the Eastern District of Pennsylvania, and is included herein
(in Possession)

SHEET, DECEMBER 31, 1937

LIABILITIES	Consolidated Total	Including Subsidiaries other than Midvale	The Midvale Company
First Mortgage 5% Sinking Fund Gold Bonds, due 1940.	\$2,676,000.00	\$2,676,000.00	—
General Mortgage Bonds:			
4% Series due 1947, deposited as collateral for bank loans.....	\$6,000,000		
Reserved for use in connection with the re- tirement of First Mortgage Bonds.....	2,676,000		
	<u>\$8,676,000</u>		
Refunding Mortgage Bonds:			
6% Convertible Series due 1950.....	\$6,470,900.00	\$6,470,900.00	—
Current Liabilities:			
Bank Loans Payable.....	\$4,500,000.00	\$4,500,000.00	—
Notes Payable.....	200,370.10	200,370.10	—
Accounts Payable.....	3,860,730.21	3,445,397.71	\$457,344.52
Advances Received on Sales Contracts.....	14,602.36	12,083.67	2,518.69
Accrued Accounts:			
Payroll, Commissions, etc.....	606,969.12	304,912.67	302,056.45
Federal and Pennsylvania Income Taxes.....	746,487.30	234,487.30	512,000.00
Other Taxes.....	427,592.24	310,562.19	117,030.05
Interest.....	156,866.69	156,866.69	—
	<u>\$10,513,618.02</u>	<u>\$9,164,680.33</u>	<u>\$1,390,949.71</u>
General Reserves.....	\$1,034,494.25	\$884,620.60	\$149,873.65
Reserve for Reorganization Expenses.....	561,949.38	561,949.38	—
Miscellaneous Reserves and Deferred Credits.....	839,470.26	93,471.50	745,998.76
	<u>\$2,435,913.89</u>	<u>\$1,540,041.48</u>	<u>\$895,872.41</u>
Equity of Minority Stockholders in the Capital Stock and Surplus of:			
The Midvale Company, 38.55%.....	\$4,640,569.38	—	—
The Whitcomb Locomotive Company, 8.05%.....	26,989.46	\$26,989.46	—
	<u>\$4,667,558.84</u>		
Capital Stock and Surplus:			
Preferred Stock, 7% cumulative, \$30 par, Authorized, 125,251.2 shares Issued or Issuable, 38,825.4 shares.....	\$1,164,762.00	\$1,164,762.00	—
Common Stock, \$13 par, Authorized, 3,000,000 shares Issued or Issuable, 1,027,762 shares.....	13,360,906.00	13,360,906.00	—
(Reserved for conversion of Refunding Mortgage Bonds, 6% Convertible Series due 1950, 420,608 shares, and for exercise of Warrants, 671,314 shares)			
Common Stock of The Midvale Company.....	—	—	\$10,574,621.02
Surplus as per annexed statement, page 14.....	25,256,460.70	18,786,115.99	1,463,172.45
	<u>\$39,782,128.70</u>	<u>\$33,311,783.99</u>	<u>\$12,037,793.47</u>
	<u>\$66,546,119.45</u>	<u>\$53,190,395.26</u>	<u>\$14,324,615.59</u>

See balance sheet notes on page 12

BALANCE SHEET NOTES

Property, Plant and Equipment includes equipment purchased under conditional sales agreements, payable in semi-annual installments to November 22, 1941, aggregating \$166,626.56. Title to such equipment is held by the seller until the full purchase price is paid.

The Baldwin Locomotive Works voting trust certificates representing \$13 par value common stock, and warrants, owned by The Midvale Company, shown under Investments in the consolidated total assets, are included in Sundry Securities of The Midvale Company.

The capital stock of The Midvale Company owned by the parent Company together with General Mortgage Bonds of The Baldwin Locomotive Works, 4% Series due 1947, in the principal amount of \$6,000,000, are deposited as collateral for bank loans in accordance with court Orders authorizing the Company to borrow up to \$5,000,000 and to use these securities as collateral for such loans. \$4,500,000 was borrowed under this authority to December 31, 1937.

Sundry Securities include \$82,000 par value of U. S. Treasury 1 $\frac{3}{4}$ % notes at cost of \$82,181.26, deposited to secure the payment in accordance with the Workmen's Compensation Law of Pennsylvania, of compensation on account of accidents.

There is a contingent liability of \$185,412.52 at December 31, 1937, under the assignment of a customer's conditional sales agreement, payment being guaranteed to the assignee of the related quarterly installments maturing February 6, 1938 to May 6, 1939.

On February 5, 1938, the shares of preferred and common stocks issuable pursuant to the Plan of Reorganization, but not yet issued, consisted of:

2,969.4 shares of Preferred Stock, 7% Cumulative, \$30 Par Value, held for exchange for interest coupons on Consolidated Mortgage Bonds or for payment of interest coupons matured on or before September 1, 1937 on Refunding Mortgage Bonds;

54,018 shares of Common Stock, \$13 Par Value, held for exchange for 18,006 shares of old preferred stock; and

30,919.3 shares of Common Stock, \$13 Par Value, held for exchange for 309,193 shares of old common stock.

The consolidated surplus at December 31, 1937 shown at..... \$25,256,460.70 consists of:

Capital surplus of the parent Company at September 1, 1937, after giving effect to the Plan of Reorganization, less reorganization expenses subsequently paid or reserved for..... \$18,973,457.90

Earned surplus of the parent Company at December 31, 1937, arising from dividends received from subsidiary companies subsequent to September 1, 1937, net of loss from operations for the four months ended December 31, 1937..... \$910,018.86

The net excess of the value of the parent Company's investment in the capital stocks of its subsidiaries, as shown on their own books of account, as compared with the value at which these investments are carried on the books of the parent Company..... \$5,372,983.94

(Deficits of certain subsidiaries arising from operations exceed the earned surpluses of others, since the respective dates of acquisition, in the net amount of \$967,212.99).

THE BALDWIN LOCOMOTIVE WORKS

(The Baldwin Locomotive Works, Parent Company, is in Proceedings for Reorganization in the District Court of the United States for the Eastern District of Pennsylvania, and is included herein as Debtor in Possession)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1937

Sales.....		\$36,586,461.88
------------	--	-----------------

Less:

Cost of Sales, including Selling, Administrative and General Expenses.....	\$32,282,935.56	
Provision for Depreciation.....	1,850,468.25	
		<u>34,133,403.81</u>
Operating Profit.....		\$2,453,058.07

Other Income:

Dividends.....	\$26,870.00	
Interest and Discount.....	118,767.68	
Miscellaneous.....	46,486.29	
		<u>192,123.97</u>
Operating Profit and Other Income.....		\$2,645,182.04

Other Expenses:

Interest.....	\$622,845.73	
Miscellaneous (including profit participation for officers and other employees accrued by subsidiary companies, \$293,432.89).....	373,369.16	
Provision for Federal and Pennsylvania Income Taxes of Subsidiary Companies (including Federal Surtax on undistributed profits, \$63,300)...	726,200.00	
		<u>1,722,414.89</u>
Net Profit for the Year.....		\$922,767.15

Equity of Minority Stockholders in:

Net Profit of The Midvale Company.....	\$516,302.93	
Loss of The Whitcomb Locomotive Company.....	912.60	
		<u>515,390.33</u>
Profit Accrued to The Baldwin Locomotive Works Consolidated..		<u>\$407,376.82</u>

THE BALDWIN LOCOMOTIVE WORKS

(The Baldwin Locomotive Works, Parent Company, is in Proceedings for Reorganization in the District Court of the United States for the Eastern District of Pennsylvania, and is included herein as Debtor in Possession)

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1937

	Consolidated Total	Including Subsidiaries other than Midvale	The Midvale Company
Balance January 1, 1937:			
Capital Surplus (or Deficit*).....	\$4,870,819.44	\$1,714,698.02*	—
Earned Surplus.....	<u> </u>	<u> </u>	\$1,650,597.59
Add:			
Net Profit for the Year 1937.....	407,376.82	319,263.94	1,341,815.81
Increase resulting from reorganization of the capital structure of the parent company pursuant to final Order of confirmation of the Plan of Reorganization entered by the Court on September 1, 1937.....	20,862,929.45	20,862,929.45	—
	<u>\$26,141,125.71</u>	<u>\$19,467,495.37</u>	<u>\$2,992,413.40</u>
Deduct:			
Dividends Paid.....	—	—	\$1,198,426.25
Provision for additional income taxes and refunds to the Government under the Vinson Act, for 1935 and 1936.....	\$203,285.63	—	330,814.70
Reorganization expenses of the parent company paid during the year and reserve provided for such expenses remaining unpaid at December 31, 1937.....	681,379.38	\$681,379.38	—
	<u>\$884,665.01</u>	<u>\$681,379.38</u>	<u>\$1,529,240.95</u>
Balance December 31, 1937:			
Capital Surplus.....	\$25,256,460.70	\$18,786,115.99	—
Earned Surplus.....	<u> </u>	<u> </u>	\$1,463,172.45

CONSOLIDATED STATEMENT OF GENERAL RESERVES FOR THE YEAR ENDED DECEMBER 31, 1937

Balance at January 1, 1937.....	\$4,699,843.32
Add transfers due to:	
Decrease in reserve for receivables.....	100,000.00
Decrease in accrual for taxes other than income taxes.....	69,099.69
	<u>\$4,868,943.01</u>
Deduct:	
Transfer to reserve for sundry securities, The Midvale Company...	\$150,000.00
Mark down in the book value of property, plant and equipment through charge against the remainder of the reserve created in 1934 for this purpose.....	3,584,448.76
Settlement of claim for commissions arising from transactions prior to 1925 for which reserve had been earmarked.....	100,000.00
	<u>3,834,448.76</u>
Balance at December 31, 1937.....	<u>\$1,034,494.25</u>

TO THE BOARD OF DIRECTORS OF
THE BALDWIN LOCOMOTIVE WORKS:

We have made an examination of the balance sheet of The Baldwin Locomotive Works and of each of its subsidiary companies, except The Midvale Company, as at December 31, 1937, and of the statements of profit and loss, surplus and general reserves of each of these companies, except The Midvale Company, for the year 1937. We have examined also the consolidated balance sheets and the consolidated statements of profit and loss, surplus and general reserves presented herewith. The balance sheet and statement of profit and loss of The Midvale Company were examined by Messrs. Arthur Young & Company, a copy of whose report we received.

The parent company has been in proceedings for reorganization in the District Court of the United States for the Eastern District of Pennsylvania since February 25, 1935, and is included herein as Debtor in possession. By Order of the Court entered on September 1, 1937, the Plan of Reorganization of the company was confirmed and the company was authorized to take all actions necessary and requisite to consummate the said Plan of Reorganization. Effect has been given in the books of account of the company to the actions taken under the Plan of Reorganization pursuant to such Order.

In connection with our examinations we examined or tested the accounting records and other supporting evidence of each of these companies, other than The Midvale Company, and obtained information and explanations from their officers; we also made a general review of the accounting methods and of the operating and income accounts for the year to the extent we considered appropriate, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination and upon the report of the accountants upon their examination of The Midvale Company, the accompanying consolidated balance sheet and consolidated statements of profit and loss, surplus and general reserves fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the consolidated positions of the companies as at December 31, 1937, and the consolidated results of operations for the year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY

PHILADELPHIA, PENNA.
February 9, 1938.

THE BALDWIN LOCOMOTIVE WORKS

BUILDERS OF
LOCOMOTIVES
STEAM ELECTRIC DIESEL

DISTRICT SALES MANAGERS UNITED STATES

PHILADELPHIA, PA.	ARTHUR S. GOBLE	Eddystone
CHICAGO, ILL.	CHARLES RIDDELL	627 Railway Exchange
NEW YORK, N. Y.	VICTOR E. RENNIX	120 Broadway
PORTLAND, ORE.	ARTHUR J. BEUTER	605 American Bank Bldg.
ST. LOUIS, MO.	CURTIS G. GREEN	1010 Pine Street
SAN FRANCISCO, CAL.	LATHAM McMULLIN	2910 Russ Building

FOREIGN SALES REPRESENTATIVES AND AGENTS

THOMAS L. FOSTER - FOREIGN SALES MANAGER

CLYDE G. PINNEY
Technical Representative and Sales
Engineer for South America (except
Columbia and Venezuela).

F. T. SLAYTON
Technical Representative and Sales
Engineer for Mexico, West Indies,
Central America, Columbia and
Venezuela.

J. A. GOOD
Technical Representative and
Sales Engineer for Hawaiian Islands.

AFRICA (SOUTH).....	E. M. F. BUILDINGS, JOHANNESBURG.....	Edmunds Bros. (Pty.) Ltd.
ARGENTINA AND PARAGUAY..	AVDA. ROQUE SAENZ PENA No. 832 BUENOS AIRES, ARGENTINA.....	Fiore Co.
AUSTRALIA.....	31 REIBY PLACE, SYDNEY, NEW SOUTH WALES..... 189 KING STREET, MELBOURNE, VICTORIA..... 860 HAY STREET, PERTH, WESTERN AUSTRALIA.....	R. Towns & Co. Newell & Co., Pty., Ltd. Leslie & Co.

FOREIGN REPRESENTATIVES AND AGENTS—(Continued)

BRAZIL.....	RUA MAYRINK VEIGA No. 6, RIO DE JANEIRO	Norton, Megaw & Co., Ltd.
CHILE AND BOLIVIA.....	VALPARAISO, CHILE.....	Wesscl, Duval & Cia., S. A. C.
CHINA.....	21, 43 YUEN MING YUEN ROAD, SHANGHAI.....	Andersen, Meyer & Co., Ltd.
COLUMBIA.....	APARTADO POSTAL No. 1589, BOGOTA.....	Tomas Lopez
CUBA AND JAMAICA.....	APARTADO 43, SAGUA LA GRANDE, CUBA.....	Macfarlane Foundry & Honolulu Iron Works, S/A
ECUADOR.....	CASILLA DE CORREOS 39, QUITO	Andino, Gonzalez y Cia.
GREAT BRITAIN AND EUROPEAN CONTINENT.....	26, VICTORIA STREET, WESTMINSTER, (Excluding Russia and Scandi- navia)	LONDON, S. W. 1.....Davis & Lloyd
HAWAIIAN ISLANDS.....	P. O. Box 3470, HONOLULU.....	C. Brewer & Co., Ltd.
INDIA, BURMA AND CEYLON..	5 DALHOUSIE SQUARE, CALCUTTA.....	L. Brooke Edwards
JAPAN.....	YAESU BLDG., ROOM 525, MARUNOUCHI, TOKYO	Frazar & Co., Ltd.
NEWFOUNDLAND.....	154 DUCKWORTH STREET, ST. JOHNS.....	Harold A. Walsh & Co.
NEW ZEALAND.....	P. O. Box 366, WELLINGTON.....	Philips & Pike, Ltd.
PERU.....	APARTADO 146, LIMA.....	Pedro Martinto
PHILIPPINES.....	MANILA.....	Pacific Commercial Co.
PUERTO RICO AND DOMINICAN REPUBLIC.....	BANK OF NOVA SCOTIA BLDG., SAN JUAN, P. R.....	R. Carrión
SCANDINAVIA.....	TOLDBOGADEN No. 8, OSLO, NORWAY.....	Olav Belsheim
VENEZUELA, TRINIDAD AND LESSER ANTILLES.....	APARTADO 346, MARACAIBO, VENEZUELA.....	T. D. Drew-Bear

STANDARD STEEL WORKS COMPANY

Incorporated under the Laws of the State of Pennsylvania

OFFICERS

SAMUEL M. VAUCLAIN	Chairman of the Board
GEORGE H. HOUSTON	President
JOHN P. SYKES	Vice-President
FRANK K. METZGER	Vice-President and General Manager
CHARLES E. ACKER	Treasurer
CHARLES D. MACGILLIVRAY	Secretary
CARLOS F. NOYES	Comptroller

PRINCIPAL PRODUCTS

Steel Forgings	Steel Castings	Steel Tires
Wrought Steel Wheels	Steel Springs	

PLANT

BURNHAM, MIFFLIN COUNTY
PENNSYLVANIA

CRAMP BRASS AND IRON FOUNDRIES COMPANY

Incorporated under the Laws of the State of Delaware

OFFICERS

GEORGE H. HOUSTON	Chairman of the Board
NORRIS H. SCHWENK	President
JAMES J. NELSON	Vice-President
CHARLES E. ACKER	Treasurer
CHARLES D. MACGILLIVRAY	Secretary

PRINCIPAL PRODUCTS

Iron, Brass and Bronze Castings
Parsons White Brass and Babbitt Metal Ingots

BALDWIN-SOUTHWARK CORPORATION

Incorporated under the Laws of the State of Delaware

OFFICERS

SAMUEL M. VAUCLAIN	Chairman of the Board
GEORGE H. HOUSTON	President
JOHN P. SYKES	Vice-President
WILLIAM H. HARMAN	Vice-President and General Manager
CHARLES E. ACKER	Treasurer
CHARLES D. MACGILLIVRAY	Secretary
CARLOS F. NOYES	Comptroller

PRINCIPAL PRODUCTS

Water Power Turbines	Hydraulic Press Machinery
Testing Machines	Special Machinery
Power Tools	

PLANT AT BALDWIN

EDDYSTONE, PENNSYLVANIA

DE LA VERGNE ENGINE COMPANY

Incorporated under the Laws of the State of New York

OFFICERS

SAMUEL M. VAUCLAIN	Chairman of the Board
GEORGE H. HOUSTON	President
WILLIAM H. HARMAN	Vice-President
CHARLES E. ACKER	Treasurer
CHARLES D. MACGILLIVRAY	Secretary

PRINCIPAL PRODUCTS

Diesel Engines

THE WHITCOMB LOCOMOTIVE COMPANY

Incorporated under the Laws of the State of Delaware

OFFICERS

SAMUEL M. VAUCLAIN	Chairman of the Board
GEORGE H. HOUSTON	President
JOHN P. SYKES	Vice-President
CHARLES E. ACKER	Treasurer
CHARLES D. MACGILLIVRAY	Secretary

PRINCIPAL PRODUCTS

Internal Combustion Locomotives

PLANT

ROCHELLE, ILLINOIS

THE PELTON WATER WHEEL COMPANY

Incorporated under the Laws of the State of California

OFFICERS

GEORGE H. HOUSTON	Chairman of the Board
WILLIAM H. HARMAN	Vice-Chairman of the Board
EVERETT M. BREED	President
W. HORACE HOLCOMB	Vice-President
CHARLES E. ACKER	Treasurer
CHARLES D. MACGILLIVRAY	Secretary

PRINCIPAL PRODUCTS

Waterpower Turbines Hydraulic Valves
Miscellaneous Machinery for Irrigation and Public Utility Projects

PLANT

SAN FRANCISCO, CALIFORNIA

THE MIDVALE COMPANY

Incorporated under the Laws of the State of Delaware

DIRECTORS

FRANCIS BRADLEY	Philadelphia
HARRY L. FREVERT	Philadelphia
STUART HAZLEWOOD	Philadelphia
GEORGE H. HOUSTON	Philadelphia
SYDNEY E. HUTCHINSON	Philadelphia
CONRAD N. LAUER	Philadelphia
JAMES M. MILLIKEN	Philadelphia
ARTHUR W. SEWALL	Philadelphia
ROBERT C. SHIELDS	Detroit
W. HINCKLE SMITH	Philadelphia
JOHN P. SYKES	Philadelphia
SAMUEL M. VAUCLAIN	Rosemont, Pa.
JOSEPH WAYNE, JR.	Philadelphia

OFFICERS

GEORGE H. HOUSTON	Chairman of the Board
HARRY L. FREVERT	President
FRANCIS BRADLEY	Vice-President
STUART HAZLEWOOD	Vice-President in Charge of Sales
CHARLES D. MacGILLIVRAY	Secretary
JAMES M. MILLIKEN	Treasurer and Assistant Secretary

PRINCIPAL PRODUCTS

Heavy Forgings of Carbon and Alloy Steels
Tool Steel, including high speed steel
Hardened and Ground Steel Rolls
Steel Tires and Weldless Rings
High Alloy Steel Castings
Alloy Steel Bars
Armor Plate and
Ordnance

PLANT

NICETOWN, PHILADELPHIA

